



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

29 Oct 1996

MEMORANDUM FOR DISTRIBUTION

Subj : WEAPON SYSTEM WARRANTIES

Encl: (1) OUSD(DDP) **memo** of 16 Sep 1996
(2) ASN(S&L) memo of 8 Sep 1986

Enclosure (1) reports that the cost-effectiveness of weapon system warranties has not been adequately documented. In-process and post-award assessments have frequently not been performed.

The Navy expects its suppliers to provide equipment which meets performance requirements and is free from defects in materials and workmanship. We do not expect to pay extra for these basic contract requirements. Enclosure (2) continues to be an accurate summary of Navy warranty policy.

In those exceptional instances where the Navy is required to pay for warranties, there can be no presumption of cost-effectiveness. A cost-benefit analysis must be performed, and requests for waiver of warranty requirements must be submitted, whenever a warranty is not advantageous to the Government.

Elliott B. Branch

Elliott B. Branch
Executive Director
Acquisition & Business
Management

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See page 2

Subj : WEAPON SYSTEM WARRANTIES

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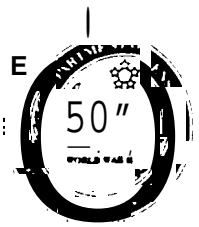
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OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000



ACQUISITION AND
TECHNOLOGY

September 16, 1996

DP/DSPS

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT,
ASN (RD&A) /ABM
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
DIRECTOR, PROCUREMENT POLICY, ASA(RD&A)/SARD-PP
DEPUTY DIRECTOR (ACQUISITION), DEFENSE LOGISTICS AGENCY

Subject: 10 U.S.C. 2403 Weapon System Warranties

Recently the GAO completed a review of weapon system warranties required by 10 U.S.C. 2403 (GAO/NSIAD-96-88). The GAO recommended to Congress that this law should be repealed. The GAO also made some recommendations to the Department which identify actions needed to ensure we only obtain cost-effective warranties.

Warranties should not be obtained if they are not cost-effective or are inconsistent with the national defense. It is imperative that a cost-benefit analysis be accomplished to determine the cost-effectiveness of the warranty. DFARS 246.770-2 and 246.770-7 provide guidance on cost-benefit analyses. The cost-benefit analysis should consider government administrative costs and realistically reflect the likelihood of warranty claims. It should also consider the present warranty costs versus future expected benefits.

In-process and post-award assessments provide information needed to determine the overall effectiveness of a warranty. These assessments sometimes have not been accomplished and, when accomplished, have not always been considered in follow-on cost benefit analyses. It is important that the Department use these tools and consider the effectiveness of prior contract warranties in follow-on cost-benefit analyses.

Statute stipulates that weapon system warranty waivers must be approved at a level no lower than the Assistant Secretary of Defense or the Military Departments and requires Congressional notification. The GAO recognized these statutory requirements discourage pursuit of warranty waivers, but also provided one example of a very cumbersome internal waiver approval process. Please review your waiver approval process to ensure it is efficient.

Eleanor R. Spector
Director, Defense Procurement



ENCLOSURE(1)



DEPARTMENT OF THE NAVY

OFFICE OF THE ASSISTANT SECRETARY

(SHIPBUILDING AND LOGISTICS)

WASHINGTON DC 20380-5000

SEP 8 1986

MEMORANDUM FOR THE COMMANDERS OF NAVAL SYSTEMS COMMANDS
DEPUTY CHIEF OF STAFF FOR INSTALLATIONS AND
LOGISTICS, HEADQUARTERS, U. S. MARINE CORPS
DIRECTOR, STRATEGIC SYSTEMS PROJECT OFFICE
CHIEF OF NAVAL RESEARCH
COMMANDER, MILITARY SEALIFT COMMAND

Subj: WARRANTIES

Ref: (a) DoD FAR Supplement (DFARS) Subpart 46.7
(b) Federal Acquisition Regulation (FAR) 31.205-39
(c) Federal Acquisition Regulation (FAR) 46.707

The use of warranties in the Procurement of weapon systems is mandatory when items that can be used directly by the Navy to carry out combat missions meet the thresholds established in reference (a).

The basic elements of these warranties are as follows:

- ° Conformance to design and manufacturing requirements
- ° Freedom from defects in materials and workmanship
- ° Conformance to essential performance requirements

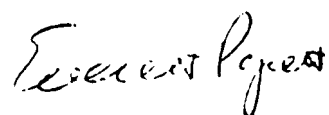
The same elements of written warranties are the basic expectations with which we enter development and *production* contracts. The contractor should be developing the item to meet the performance requirements. A quality system should exist to assure conformance to design and freedom from defects in manufacture and workmanship. It follows that we should expect contractors to meet their obligations without the need to negotiate additional warranty costs.

While it is not appropriate to negotiate additional cost for a warranty under these conditions, it may be reasonable to consider through additional profit the added risk to a contractor for costs which may be incurred in satisfying the conditions of a warranty. The degree of risk will be related to the complexity of the design and manufacturing requirements and the difficulty in meeting essential performance requirements. The risk associated with a warranty must be quantified and documented in business clearances.

ENCLOSURE(2)

It is recognized that under certain unusual circumstances contractors could not have satisfied warranty responsibilities in the design, development and production contracts. Examples may include warranties exceeding specification requirements or cases in which the contractor was not involved in design and development. In these cases, it may be appropriate to negotiate additional warranty costs. Warranty costs must be evaluated and the cost/benefit analysis should be documented in business clearances.

The provisions of references (b) and (c) should be followed in implementing this policy which is effective for all procurements for which approval or clearance has not been obtained.

A handwritten signature in cursive script, reading "Everett Pyatt".

EVERETT PYATT
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)